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FOR EB A/S WAYNE AND NEA/ARPI

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SUBJECT: SCENESETTER FOR A/S TONY WAYNE'S JANUARY 7, 2006  
VISIT TO KUWAIT

1. (SBU) We look forward to welcoming you to Kuwait. Over the past three years the GOK has embarked on an ambitious program of economic and political reform, with some successes and some frustration. There are significant opportunities for U.S. businesses in Kuwait, which will continue to increase as economic reforms progress. A National Assembly vote on developing Kuwait's Northern Oil fields in January 2006 could signal the beginning of new opportunities in Kuwait's petroleum sector. TIFA discussions that began in 2004 have stalled, but technical talks are planned for early 2006. While reforms in its laws have been slow, Kuwait has made significant progress in combating terrorist financing. Kuwait remains a strong and reliable partner in our efforts in Iraq, and has also contributed to Afghanistan, the Palestinian Authority, earthquake relief efforts in Pakistan and tsunami relief efforts in south Asia. Kuwait has also recently pledged an extraordinarily generous aid package for the victims of Hurricane Katrina. We continue to encourage economic cooperation between Kuwait and the United States.

#### Economic and Commercial Opportunities

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2. (SBU) Project Kuwait, the initiative to develop Kuwait's Northern oil fields, represents the largest single opportunity for U.S. firms in Kuwait. The project aims to expand production in four specific fields from 450,000 to 900,000 bpd. Pending National Assembly approval, the Kuwait Petroleum Corporation (KPC) will award the development project to one of three oil company consortia; Chevron and ExxonMobil lead two of the consortia, while Occidental Petroleum is an investor in the third. The arrangement will be akin to a very large technical services agreement, and could be worth up to USD 8.5 billion.

3. (SBU) In addition to Project Kuwait, opportunities for U.S. businesses in the petroleum sector are numerous. The Al-Zour North electricity plant, a proposed USD 2.4 billion 2500-megawatt powerplant, is currently in the bidding stage with American companies (Bechtel, Fluor, The Washington Group, Shaw-Stone & Webster Group, and GE) representing 5 of the 7 leading consortia. Kuwait's planned fourth refinery will reportedly be the world's largest and will refine 615,000 barrels of crude oil each day. With the loosening of Kuwait's foreign investment laws, opportunities for petrochemical joint-ventures, and the environmental and security contracts that accompany them, should increase over time.

#### Oil & Gas

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4. (SBU) In total, Kuwait claims to have 101 billion barrels of crude reserves, about 8 percent of the world total. Kuwait's petroleum sector is currently running at or near capacity, pumping roughly 2.5 million bpd of crude oil (2.3 million bpd is exported) and refining about 900,000 bpd. On January 23, 2006, the National Assembly is scheduled to vote on Project Kuwait, through which the GOK aims to increase production to 4 million bpd by 2020. At the final OPEC meeting of the year on December 12, 2005 (hosted and chaired by Kuwait), the organization decided to retain current production quotas, and noted that it may consider production cuts in 2006.

5. (SBU) While rich in oil, Kuwait is poor in natural gas. A pipeline deal to import gas from Qatar has stalled over Saudi objections to the pipeline passing through its territorial waters, and the GOK has explored options to import gas from Iran. Another possibility is for Kuwait to exploit the Al-Dorra offshore field, which is jointly owned by Kuwait and Saudi Arabia.

#### Terror Finance

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6. (SBU) The GOK is pursuing legal reforms to strengthen its CTF/AML regime; however, progress has been slow. In 2004 the GOK formed a National Committee to Combat Money Laundering and Terrorist Financing, chaired by the Central Bank (CBK) Governor, to implement the countries AML legislation (Law No.

35) that criminalizes money laundering and conduct a legal review. The Committee is comprised of 10 GOK ministries and agencies involved in CTF/AML issues. Members of the committee have formed a smaller sub-group to draft a new comprehensive terror finance law, expected to replace the 2002 AML law. According to GOK officials, a draft of the new law is near completion and will be ready for review by the USG and IMF prior to Cabinet and National Assembly approval (no earlier than Spring 2006). Central Bank officials have informed Post that the new law will incorporate international (USG and IMF) recommendations on strengthening Kuwait's CTF/AML regime to include such measures as criminalizing terror finance, strengthening Kuwait's Financial Intelligence Unit (FIU), and improving internal GOK coordination.

17. (SBU) Kuwait's FIU, housed in the CBK, is not a member of the Egmont Group and therefore remains cut-off from important information sharing mechanisms. The FIU lacks independent authority and is structurally weak, comprised of seven part-time CBK officials and headed by the governor. Unlike the U.S., banks in Kuwait cannot file STRs directly with the FIU and are required to file them with the Office of the Public Prosecutor (OPP). According to the CBK, the new law is expected to remedy these shortfalls by enhancing the FIU's role and making it the central authority on receiving, analyzing and investigating financial crimes. The Ministry of Social Affairs and Labor (MOSAL), through its charity oversight office, is responsible for regulating Kuwaiti charities. Over the last year two years, MOSAL has taken preventive CTF/AML measures, including the closure of donation kiosks and prohibition of alms collection at mosques. Banks are only authorized to transfer funds abroad for charities approved by the MOSAL. Kuwait does not have a cash-exit declaration policy and there is isolated enforcement (only at the Abdaly Port bordering Iraq) of the country's cash-entry policy (report currency of \$10,000 or more).

18. (SBU) The GOK welcomes USG and international technical assistance to strengthen its CTF/AML regime. DHS/ICE recently conducted a four-day cash smuggling conference in conjunction with Kuwait Customs. The CBK is hosting a four-day seminar (Dec 17-21) for MENA/FATF member states to train assessors based on IMF/WB methodology. DHS/ICE is also considering technical and legal training to the OPP's AML unit.

#### Economic Development and Reform

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19. (U) While economic reform remains limited, the country's economy is experiencing an unprecedented boom resulting from the rise in oil prices and heightened sense of political and economic security in the country following the demise of the Iraqi regime. It is estimated that the country's budget surplus will be approximately \$21 billion this year alone. The Kuwaiti stock market continues to surge ahead, breaking the 10,000 point in August 2005 for the first time in its history and remaining the second most active market in the region following Saudi Arabia. The appeal of Islamic banking continues to gain popularity and foreign banks, such as BNP Paribas and HSBC are making their entry into the market following a relaxation of Central Bank regulations against foreign competitors. Citibank is expected to begin operations in early 2006. The GOK has also begun a review of its 2002 money laundering law to enhance its overall anti-terrorist financing policies and procedures.

110. (SBU) As part of the effort to facilitate economic reform, the U.S. and Kuwait have signed a Trade and Investment Framework Agreement (TIFA), with the eventual goal of negotiating a free-trade agreement. The Embassy uses the TIFA framework to address needed reforms in the commercial law, taxation, labor, and import inspection sectors. While Kuwait has made some progress, significant hurdles to an FTA remain, including inadequate intellectual property rights (IPR) protections, labor laws and practices which have helped place Kuwait in Tier 3 of the annual Trafficking in Persons Report, and an import pre-inspection regime that the U.S. considers a technical barrier to trade. Other issues that negatively effect the investment climate in Kuwait include opaque and discriminatory taxation policies, and environmental laws that fall short of U.S. standards. TIFA talks have been stalled for the past year, but Kuwaiti technical experts plan to meet with the U.S. Trade Representative, possibly in February 2006, in an effort to re-start the process.

#### Assistance for Hurricane Katrina

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111. (U) Shortly after the Hurricane Katrina event, Kuwait pledged \$500 million in assistance. The Prime Minister has already presented \$25 million to the Bush-Clinton Katrina Fund; another \$75 million will be donated for humanitarian projects. We are working with the GOK to discuss the best

means to disburse the remaining \$400 million. The Kuwaiti people also generously donated over \$2.7 million from their own pockets to a special fund set up by the Kuwait Red Crescent Society, which was recently presented to the American Red Cross. Although the President, Secretary Rice, and the Ambassador have all thanked the GOK and the Kuwaiti people for their extraordinary generosity, the visit presents another opportunity to express appreciation for Kuwait's assistance in our time of need.

#### Assistance for Iraq -----

12. (SBU) Kuwait announced \$1.5 billion in bilateral aid to Iraq at the Madrid Conference, and counted \$1 billion through in-kind assistance in support of Operation Iraqi Freedom (OIF). Of the remaining \$500 million, the GOK committed to \$440 million in concessionary loans for power sector projects, and \$60 million in grants for educational and health projects. Beyond its Madrid pledges, in June 2005, Kuwait committed an additional \$60 million for health and education through the Humanitarian Operations Center (HOC). In addition, the GOK has provided \$10 million to the International Reconstruction Fund Facility for Iraq (IRFFI), and \$5 million in medical aid to the HOC.

13. (SBU) From December 2002 - December 2004, Kuwait provided over \$2 billion in free fuel for U.S. and Coalition Force use in Operation Iraqi Freedom (OIF) and as Assistance in Kind (AIK) for Kuwait-specific activities under the Defense Cooperation Agreement (DCA). Kuwait continues to provide fuel at a concessionary rate, saving the military and U.S. taxpayers millions of dollars a year. It also provides assistance-in-kind support, estimated at \$1-2 billion annually, for the U.S. military presence in Kuwait. Kuwait's support facilitates the U.S. military's mission in Iraq and Afghanistan, both of which are supported by over 22,000 troops in Kuwait.

#### Assistance for Afghanistan -----

14. (SBU) At the 2002 Tokyo Donors Conference, Kuwait pledged \$30 million in grants to the GOA (GOA claims that the pledge was \$45 million, while the Kuwait Fund contests the GOA claim as inaccurate). At this time, there is no bilateral assistance pending the resolution of GOA arrears of \$19 million on a 1977 loan for a sugar factory. The GOK has offered to reschedule the loan pending GOA approval, and the issue is expected to be resolved after settlement of Russian debt claims with the GOA. The Council of Ministers has the authority to commit to new GOK grants to the GOA despite the arrears with the Kuwait Fund; the Council of Ministers employed this route in 2002 and channeled the money through the Asian Development Bank and World Bank.

#### Other Assistance -----

15. (U) Kuwait maintains a generous foreign assistance program spear-headed by the Kuwait Fund for Arab Economic Development (KFAED). Since its inception in 1961, KFAED has provided approximately \$13B in concessional loans and grants to 101 countries in the developing world, focusing on infrastructure and social sector development. Today, KFAED is responsible for administering the GOK's \$560M in pledge assistance to Iraq focusing on health, education and power sector development. KFAED has also provided grants in support of Afghanistan's reconstruction efforts and continues to serve as the GOK's main assistance agency for the Palestinian territories and other Arab countries. Kuwait has contributed \$221 million to the Palestinian Authority since 1993, and nearly \$80 million to Lebanon since 1992.. The GOK is among the region's most generous donors of humanitarian assistance, contributing \$100M to the South Asia earthquake and continuing to assist the United Nations Relief and Works Agency (UNRWA) support of Palestinian refugees.

#### GOK Leadership -----

16. (SBU) Power in Kuwait is concentrated in the Executive Body, which consists of the Amir, the Prime Minister, and the Council of Ministers. The health of both the Amir and the Crown Prince has deteriorated significantly over the past five years, leaving Prime Minister Shaykh Sabah Al-Ahmed Al-Jaber Al-Sabah as the de facto ruler of the emirate. Recent speculation that the Al-Sabah family would make a pre-emptive succession decision were silenced when Shaykh Sabah stated firmly that neither the Amir nor the Crown Prince would step aside. The National Assembly also plays an assertive role in Kuwaiti politics, having the power to initiate legislation and to question government ministers, several of whom have been forced to resign. The role and influence of the National Assembly will likely become more important as political reforms are implemented.

## Political Reform

17. (SBU) In May 2005, the National Assembly passed legislation giving women full political rights; the next National Assembly elections are scheduled for 2007. Debate continues to rage over a number of other key reforms, including proposals to reduce the number of electoral districts from 25 to 10, or even 5, which supporters argue would limit the electoral corruption believed to be widespread; legislation granting official Government recognition to political parties; a new press and publications law, allowing licensing of new dailies; and a new labor law, providing greater protections to Kuwait's expatriate work force. These reforms are seen by supporters as critical to continued political and economic development in the country.

## Promoting Study in the U.S.

18. (U) Since 9/11, Kuwait has seen the largest percentage drop of all the Middle East countries in the number of students studying in the U.S. From a pre-9/11 average of 2,800 Kuwaitis studying in the U.S., there were only 1,846 during the 2003-2004 academic year. If this trend continues, in less than 15 years, there will be far fewer Kuwaiti elite in academia and business, cultural, and political life who are intimately familiar with America and sympathetic to our values. The reasons for the sharp drop in the number of Kuwaitis pursuing advanced degrees in the U.S. are diverse: the misperceptions that visas are difficult to obtain and America does not welcome Muslims or Arabs, a growing preference to attend "American" universities in the region, and more students choosing Australia, Canada, and the UK. Embassy Kuwait has made increasing the number of Kuwaitis studying in the U.S. a Mission priority and is using Ambassadorial speeches, media interviews, the Internet, and information fairs to promote the value and benefits of a U.S. education.

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